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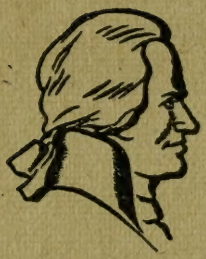
SOME RULES OF THE BUSINESS GAME



MODERN BUSINESS
TALK No. 1

ALEXANDER HAMILTON INSTITUTE
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Some Rules of the Business Game

Number One of a Series of Modern Business Talks Prepared by the Alexander Hamilton Institute

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READING ASSIGNMENT
NUMBER ONE

"The professions differ from business occupations in that they have definite codes of ethics which prescribe and limit the conduct of practitioners in the various contingencies likely to arise."—Page 48, Chapter I, Volume 1 of the MODERN BUSINESS Text.

(1) Read this Talk on "Some Rules of the Business Game."

As results go, there is little difference between a player who violates the rules thru ignorance and one who violates them deliberately. Usually, both are disqualified. This Talk points out some of these rules.

(2) Read from the beginning to Chapter VIII (pages 1 to 170 inclusive) of "Business and the Man," which is Volume 1 of the MODERN BUSINESS Text.

(3) Read with care Lecture No. 1 which accompanies this Talk.

The reading assignments in the MODERN BUSINESS Course are arranged with a view to fit the average business man's leisure time, yet leave room for other activities usually scheduled for spare moments. It should be easily possible to read the Talk, the assigned portion of the Text and the Lecture in two weeks. If possible, complete the reading during the first week and devote the second week to review and reflection.

"The grand secret of success is that successful men take one hundred times the trouble that men usually do."—PARTON.

Some Rules of the Business Game

> *"Ethically a man cannot justify himself by the plea that he keeps within the law. An act or practice may be entirely lawful and yet be immoral and unethical. It is possible for a business man to be morally criminal and depraved without violating a single law of the land."*—Page 115, Chapter V, Volume 1 of the MODERN BUSINESS Text.

Business is sometimes spoken of as a game and there is no doubt that to the man who has the right sort of interest in his business, it is indeed a game, not only interesting and enjoyable, but actually fascinating. In that game, dollars are merely the pawns, they are not the prizes played for. It is true that the possession of money adds to the owner's power and influence—it is a means to an end. But the interested player in such a game seeks wealth not for its own sake, but for the purpose of increasing his strength in that great game—the game of business.

In the business game as in all other games, each player does his best to win. That is, of course, the right attitude, altho it carries with it a certain danger. With some men the desire to win is so strong that it sometimes becomes a dominating passion, and they cease to care particularly *how* they

win. This may happen in a football game, a card game, or in any other contest. When a man engaged in such a sport is so anxious to win that he is willing, if necessary, to break the rules of the game, we say he becomes unsportsmanlike. He is no longer a genuine player. The sooner he is expelled from the game, the better.

This is as true of players in the business game as of those in any other. The man who offends by breaking the rules, ought to be expelled.

The Need of Regulation

It is true, of course, that a leading doctrine of political economists, from the time of Adam Smith down to the time of a generation ago, was that of *laissez faire*—"let alone." The older economists believed that competition was in itself the supreme regulating force of business life, and that if the government would just keep its hands off, competition would compel every business man to play the game fairly with customers and with employes as well as with competitors.

But the *laissez faire* doctrine is no longer accepted as an automatic regulator of business practice. Experience has shown that competition is seldom completely free, and that it rarely works under such ideal conditions that it is self-regulating and beneficial to every one concerned. On the contrary, it has been found that under existing business conditions unregulated competition is destructive. It has been found impracticable and even impossible to leave

things wholly alone. Public opinion has compelled the law to step in, and many believe that legal regulation of business must go still farther than at present. In support of this view, they point out that from a theory of *laissez faire* we have, in fact, come to a point where the functions of government have been enlarged until they include not only factory and food inspection, child labor regulation and compulsory education, but, in some cases, public ownership and operation of public utilities, such as light, water and street railways. There is, in short, a growing conviction that business must be regulated, if not by legislation, then by commonly accepted rules of the business game.

> *The most effective legislation against business abuses is a united, enlightened public opinion duly expressed.*

An Illustrative Case

But in that game, there are various questions that have not yet been fully and definitely answered. There still remain to be formulated rules that cover certain disputed points. A case that occurred in a Southwestern city illustrates the need of definite rules to cover such points.

Some time ago, one of the smaller contractors in that city received a formal invitation to make a bid on the erection of a municipal pumping station. The nature of the work was such that a large amount of brick of a certain quality would be required, and the contractor found upon inquiry that he could

obtain this brick from only two manufacturers within a reasonable distance. He had but little hope of being awarded the contract, but thought it best not to ignore the invitation, and proceeded to figure out his offer and to file his bond. First of all, he called one of the brick manufacturing companies on the phone and obtained from a clerk a quotation for the quantity of brick required for the job. At the contractor's request, the brick company sent him a written confirmation of the telephone quotation. Basing his figures upon the quotation, and without making further investigation, the contractor submitted his bid. To his surprise, the bid was accepted. But shortly thereafter he learned to his dismay that the quotation he had received from the brick manufacturer was wrong; that the standard price of both companies for that grade of brick was 50 cents per thousand higher than the price quoted.

The brick company insisted that the mistake was a clerical error and that to sell the brick at the quoted price would mean a heavy loss. It flatly refused to protect its quotation.

The contractor's attorney informed him that a suit for damages would probably lie against the brick company; but the contractor, for purely business reasons, was strongly averse to bringing suit. He also admitted—to himself, at least—that as a contractor he should have known, or might easily have learned, the present market price of brick, and that his own carelessness in this respect was, in part at least, responsible for the unfortunate error.

Not willing to bring suit, the contractor, as a last resort, presented all the facts to the brick manufacturing company and asked that in view of the mistake and the resulting loss to him, some allowance be made on the price, or that in some other way the company share his loss. The chief official of the company took the request under consideration, but finally informed the contractor that the company would not in this case admit any obligation on its part to accept less than the standard price. He argued that, on the contrary, it would be unfair to other bidders for the work who had based their estimate on the correct price of the brick and who, but for the contractor's carelessness, might have been awarded the job at a fair profit. The contractor, unwilling to bring suit, went ahead with the work and pocketed his loss.

There the case rested. Which view is correct? Ought a new rule of the business game to be established to the effect that a manufacturer should, at any cost, protect his own price quotation? And if so, should this rule be applied even when the quotation is obviously an error? These are questions that sooner or later must be decided one way or the other and when that time arrives, another step will have been taken toward making more definite the rules of the business game.

Unwillingness to shoulder blame is well nigh universal. Yet it is a cardinal rule of justice and ethics that no one should be made to suffer for another's fault.

Organizing Against Price-Cutting

Another question of business ethics was recently brought to our attention thru a letter. With but slight abbreviation, the letter ran as follows:

Every two or three years the manufacturers in my line meet and organize an association, club, or whatever you may wish to call it, for the purpose of establishing a uniform price of our product. Prices are recommended, based on the cost of production and in keeping with good business. As a result of such organization, practically all the better class of manufacturers come in and agree to support the recommendations of the association with regard to the maintenance of prices. Naturally, because of the rise in price, the volume of business drops and factories are compelled either to curtail their output or to create an artificial demand—that is, a demand induced by the cutting of prices. Experience so far has shown that one after another the manufacturers give an extra discount "on the quiet." The first thing we know, everybody is doing the same thing and we are again in a rut that takes two or three years to work out of—only to fall back into it again sooner or later.

We are not asking an unreasonable price for our product. We do not desire to form a monopoly. We want to keep absolutely within the limit of the law and to follow the dictates of common honesty. But we must find some permanent relief from the present tendency to demoralize the industry, which makes even small profits practically impossible.

It may well be asked: "Is it morally or ethically right for manufacturers, working under these conditions to form an association for the purpose of regulating one another? Is it right for them to curtail production? Is it right for them to form committees for the purpose of bringing pressure to bear

upon price cutters? Are they justified in trying to save themselves from the loss which necessarily results from drastic and uncontrolled competition?

To some extent, these questions are answered by the law; to a greater extent, they must be answered by the development of a definite public opinion on the rules of the business game.

Regulation dictated purely by selfish motives rarely gives the desired results. The elements of fairness and justice must be present.

Abuse of Money Power

Still another question that has been raised time and again is whether it is proper to try to reach and control the actions of business executives thru their bank connections. The charge is often made that the "money trust" throttles all enterprises of which it does not approve. It is probably true that on a small scale the leading business men of some communities use their control of banks for the purpose of helping their own industries and hampering those of their competitors. The time may come when banking, like transportation, will be regarded as a public service to be administered under close regulation, without favoritism and without attempt to extend such control into other fields of operation. It is still an open question, but the subject is worth thinking about.

Meeting the Substitution Evil

Nearly every producer of a high-grade product is afflicted with competitors who seek to substitute their own cheaper product. There can be no question that several grades of any staple article may be on the market at the same time without especially hurting one another. Each grade appeals to its own class of consumers. The only difficulty arises when the lower grade product is made to appeal to the consumer as being "just as good" as the high-grade product.

The most effective remedy so far found for this violation of the rules of the game is extensive and persistent advertising to the consumer. But a campaign, conducted for the purpose of educating the users to demand the advertised article because they are convinced of its superior merit, even when successful, is necessarily expensive. Moreover, it has not always proved successful.

Occasionally some special means are devised against substitution. The late Mr. C. W. Post some years ago, when his "Postum" business was being harassed by a number of imitators and substitutors, put on the market a five-cent box of "Monk's Brew," which was advertised to equal any cereal coffee on the market. As a matter of fact, this was probably true, for it was taken from the same bin from which "Postum" boxes were filled. But the price was so low that even the cheapest grades could not compete with it, hence were driven from the market. That campaign is said to have cost Mr. Post $46,000, but it left him practically in possession of the field.

The question now is: "Can any valid objection be raised to Mr. Post's strategy?" His competitors, of course, were loud in proclaiming it unfair. Judged by present rules of the business game, is it or is it not to be regarded as an improper move?

This much may be said: The manufacturer who comes into the court of public opinion with a complaint of unfair competition, must come with clean hands.

Employers' Attitude Toward Employes

Another phase of this question is seen in the changed attitude of employers toward their employes. Some time ago, an industrial engineer reported that a certain number of the great manufacturing companies of the United States "are acting in a very enlightened manner in the treatment of their employes." He meant by this statement that they are devoting some time and energy toward providing their employes with comfortable houses, good food and opportunities for education. Does this attitude, as some would have it, indicate a regrettable tendency toward paternalism? Or, is it merely the recognition of a new rule of the business game—a rule that demands of employers that they take more than a formal interest in the well-being of their employes?

The law provides for employes' protection in some essential respects from injustice at the hands of employers. Most states now require the installation of

safety devices, limit the hours of labor, make some attempt to regulate strikes and lock-outs, provide compensation for physical injuries and otherwise consider the protection of employes. It is an interesting question how much farther the protecting hand of the law should be extended in that direction. It is proposed by certain economists and statesmen that further steps be taken in the direction of establishing minimum rates of wages and in providing old age pensions, etc. This is only additional evidence of the growing desire for definite rules to govern every phase of the business game.

In the main, however, the elemental relation of employer and employe is one of wages, and must of necessity always remain so. If the wage is just and satisfactory to both parties, the danger of serious injustice being done the workers is extremely small. But if the wage is unjust to either party, the situation is certain to be unsatisfactory and ultimately to become intolerable.

Protection for the Public

The law also provides that there be some protection for the public against fraud or misrepresentation. Adulteration of food products is punishable under the Pure Food Law. There is a strong public sentiment to support this law, and there is little doubt that in this respect there have been great improvements within the last decade or two. The business man who deliberately adulterates, cheats or misrepresents, is, in fact, a criminal, and may now be made to suffer

punishment as such. Unfortunately, plenty of fraud is still carried on under the guise of business; tho it is noticably decreasing both in extent and in virulence.

But beyond the reach of any law of the land, another rule to govern the merchant's relations with his customers is gradually being formulated. That is the rule that prices shall be reasonable. Business is not a process of extortion. Unfair advantage should not be taken of the temporary needs of customers. A grocer who should attempt to make a hungry man pay more for food than his well-nourished neighbor, would be severely condemned by all right-thinking people. So would a manufacturer of machinery who tried to "hold up" a customer whose plant was in urgent need of certain equipment. Public sentiment will not excuse such acts under the old plea that "business is business." The practice is contrary to the rules of the business game as played today.

This does not mean, of course, that a producer or trader may not change his prices from time to time or that he may not raise them as high as conditions permit, provided due notice thereof is given to everybody concerned. He surely may, and nearly every one in business recognizes that fact. It is otherwise, of course, with public service and other forms of government-controlled business.

Sound business policy is generally understood to require that prices be adjusted to underlying rather than to temporary or individual circumstances. In practice it is not always easy to draw a sharp line of

distinction between this sound business practice and that unthinking sentimentality that would limit business profits to a previously determined and fixed percentage. There is a widespread and growing feeling among business men and others that it is possible for reasonable men to agree on reasonable prices, and that any marked deviation from a reasonable standard is not fair business, but illegitimate extortion.

It is out of this feeling against unfair prices that the strong objection to monopoly and to combinations has arisen. The Sherman Anti-Trust Law especially forbids such combinations. The prominence given to the so-called "trust problems" in the public mind is the result of the government's attempt to enforce that law in order to prevent unfair competition.

Border Line Practices

But "unfair competition" as a legal phrase, is of somewhat uncertain meaning. For it covers, among other things, such practices as infringements of copyrights and trademarks, direct substitution of one product for a competing one, and malicious attacks. There is not yet a fully crystallized public opinion as to what constitutes unfair competition in business.

On the border line of the forbidden territory, as marked out by the law, there are, however, various practices which are generally considered unfair, such as sending spies into the plant of a competing com-

pany or otherwise trying to obtain trade secrets; "knocking" competing goods without good and sufficient reason, and trying to trade on the strength of a competing company's advertising or original trade methods.

These things are being done, and even tho the arm of the law may not yet be invoked against them, there is noticeably a growing tendency to condemn such practices and to ostracize the business man who is guilty of them.

> *There is no apparent reason why business ethics should be on a lower plane than professional ethics. Unbusinesslike conduct in all reasonableness, should receive the same condemnation as that which is bestowed upon unprofessional conduct.*

Efficiency and Ethics

Hand in hand with the law must go the right education of the business man, if business practice is to be on a proper moral plane. Efficiency and ethics are not at variance in the attempt to conduct business successfully; indeed, they are perfectly harmonious. Both are essential to lasting success. But this is a truth not yet fully understood by everybody engaged in business; and until it is, we shall continue to witness business failures that might have been averted had the proprietors been better instructed in these subjects.

The Present Assignment

The first reading assignment in Volume I of the MODERN BUSINESS Text is a fitting introduction to the study of business in all its essential features.

After the author's introductory chapter, in which there are numerous helpful suggestions and important directions for getting the most out of the MODERN BUSINESS Course, the reader is given an enlightening discussion of the "Nature and Aim of Business." (Chapter I.)

It is, of course, proper that in entering upon a study of business we should begin with a consideration of its nature and aim, so that any wrong notions we may have had on the subject may be corrected at the start.

Next follows a chapter dealing with "The Profit Problem," in which costs and prices, capital, competition and other factors that enter into that problem are briefly considered in their proper order and setting. The building of an organization and the obstacles encountered in the operation of a business are also considered in that connection.

In Chapter III the author turns aside for a moment to discuss in broad terms the functions of economics and sociology. Inasmuch as these sciences which are closely related, underlie our industrial and commercial activities, we shall be well repaid for reading attentively what the author points out in that chapter. Some of these truths the average business man is more than likely to overlook. It is

interesting to note, for example, that while many decry the multitudinous wants of the present day—wants which our forefathers never knew—and attribute the living from hand to mouth on the part of a large part of our population to an unnatural craving for things that are beyond their means to gratify, the sociologist takes a different view. In the words of our author:

> *"The sociologist sees in the human desire for wealth one of the principal springs of human action. He has learned from the study of various peoples that those who want little do little and are anemic and inefficient. The 'wantlessness of the poor' is well-known to every social worker. Give the poor man new wants, says the sociologist, and you give him ambition that will lift him out of poverty."*

Business Psychology and Business Ethics

A short chapter on psychology follows. To the business man, no less than to the scientist, this subject is important. Consciously or unconsciously we make use of psychology in our selling methods, our advertising appeals, our management of others and in our attitude toward business associates and toward customers. In fact, business life is touched at almost every point by psychological influences. The business man who knows how to turn the laws of psy-

chology to his account, possesses a distinct advantage over his rivals who lack that knowledge. It is a subject well worth studying.

The chapter on "Ethics and Business" elaborates the principles suggested in the first part of this Talk. The author points out not only what has already been done toward the creation of business standards, but also what remains to be accomplished in the effort to put business on a proper ethical level.

Incidentally, this chapter corrects some wrong impressions held by not a few with regard to the ethics of Wall Street. So far from being a "den of thieves," Wall Street is really a living representation of business honor. Undoubtedly, as the author says: "trickery and deception are practised in the shadows of Wall Street and many guileless investors are fleeced. It would be strange indeed if this were not true, for thieves and swindlers are attracted to the 'street' as are flies to an open sugar barrel. Foolish, gullible persons, reading about the many million dollar transactions in the 'street,' often go there hoping to pick up a fortune without work."

Important Motive Forces

In the remaining two chapters of the current reading assignment, the author deals with "Vision, or the Idea" (Chapter VI) and "Personal Efficiency" (Chapter VII). It is safe to say that nothing really great is ever accomplished in business or elsewhere except as a result of some one's mental vision, steadfastly held to and faithfully obeyed. To lack vision

in business is to remain in a rut bounded by very narrow walls. In the words of Jonathan Edwards:

> *"In truth, the ideas and images of men's minds are the invisible powers that constantly govern them, and to these they all pay universally a ready submission."*

No single factor is more in demand today than personal efficiency. Everywhere the cry is for more efficiency. Generally, however, it is efficiency of processes and methods that are in mind rather than efficiency of the man. Certain things contribute to the business man's efficiency; other things detract from it. Nothing could be of more direct and personal value to the reader than the author's discussion of these matters in the current assignment.

Taken altogether, these chapters give an outlook upon business that must prove decidedly helpful to every business man.

"Skill to do comes of doing, knowledge comes by eyes always open and working hands, and there is no knowledge that is not power."—EMERSON.

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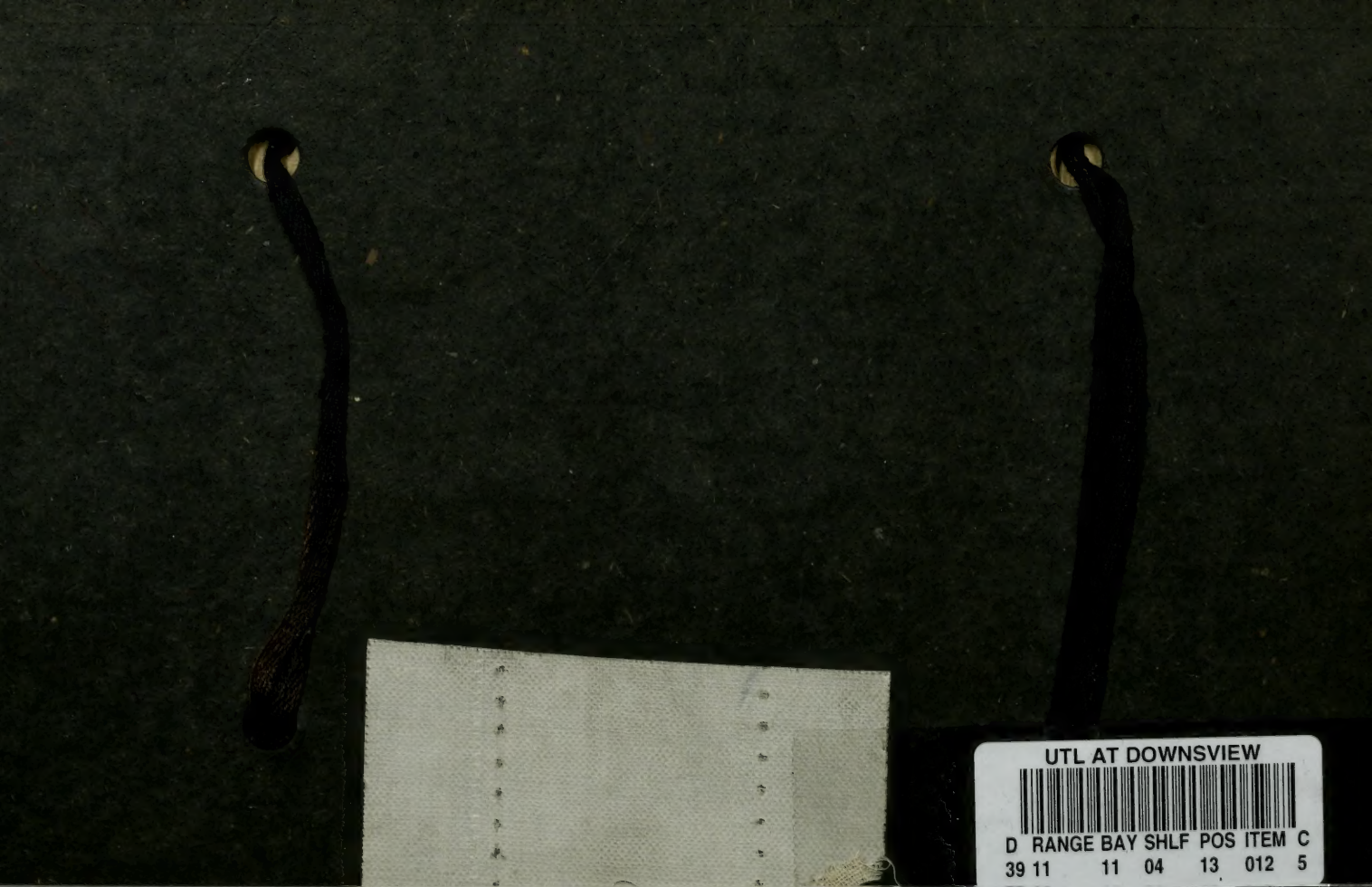
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